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C O N F I D E N T I A L SECTION 01 OF 02 REYKJAVIK 000161

SIPDIS

STATE FOR EUR/NB  
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TAGS: [PGOV](#) [PREL](#) [ECON](#) [UNGA](#) [NATO](#) [IC](#) [AF](#) [UK](#) [NL](#)  
SUBJECT: ICELANDIC FOREIGN MINISTER'S MEETING WITH CHARGE  
FOCUSES ON UNGA, ICESAVE, NATO

REF: 09 REYKJAVIK 146

Classified By: CDA Sam Watson for reasons 1.4 (b) and (d).

11. (C) Summary. Charge d'Affaires (CDA) discussed a range of issues with Icelandic Foreign Minister Ossur Skarphedinsson on September 16 during his first courtesy call. The Minister described his plans for the UN General Assembly. On Icesave, he said that the British and Dutch had responded positively to some conditions that the Icelandic Parliament had added, but had not accepted all of them. He confided that he had concerns about what would happen if the agreement had to go back to the Icelandic Parliament. He also underscored Iceland's commitment to NATO, pledged to continue to provide personnel to Afghanistan and described Iceland's EU accession process timetable. End summary.

UNGA

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12. (C) On the eve of his trip to the United Nations General Assembly, Foreign Minister Ossur Skarphedinsson candidly assessed Iceland's foreign relations as well as its domestic political situation in an initial meeting with CDA on September 16. While looking forward to the Trans-Atlantic dinner, Skarphedinsson's main UNGA priority is discussions with European Union member states, in part to lobby for Iceland's EU candidacy. In his address to the General Assembly, Skarphedinsson said he would touch upon a number of issues including the Middle East and the High North, but noted that he has a propensity to speak off the cuff and may change the focus of his speech. Skarphedinsson also plans to discuss with the IMF its review of Iceland, which has been postponed pending resolution of the Icesave issue.

Icesave

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13. (C) The Foreign Minister provided a frank update on the status of the Icesave agreement (reftel). He said that Iceland recently received an informal response from the British and Dutch governments regarding the amendments that the Icelandic Parliament attached to the original Icesave agreement. Under normal circumstances, he would consider the British and Dutch response to be a positive one in that it clearly demonstrated intent on their part to work with Iceland. He admitted, however, that the British and Dutch had not accepted all of Iceland's amendments and he was unsure what that meant for the future of the agreement.

14. (C) Skarphedinsson said that he was meeting with Prime

Minister Johanna Sigurdardottir later that afternoon to discuss the British and Dutch response in greater detail. He expressed concern, however, about what would happen if the Icesave agreement had to go back in front of the Icelandic Parliament. Calling Iceland's current political situation "troubled," he said it is difficult to know how other political parties will react should the Icesave issue come up again in Parliament. Skarphedinsson noted that, while his Social Democratic party is unified in supporting the Icesave agreement, their coalition partners in the Left Green alliance are deeply split over the issue. He called the head of the Left Green alliance, Finance Minister Steingrimur Sigfusson, a capable leader, but said that "he doesn't have full control of his party."

15. (C) Iceland's future, according to Skarphedinsson, largely hinges on the Icesave agreement. He mentioned that the fate of potential Nordic and IMF loans, as well as Iceland's EU accession, all hinge on a successful completion of the Icesave agreement. Skarphedinsson intends to continue with his dual-pronged strategy of engaging the British and Dutch governments and also talking to key Icelandic political players. Although discussions continue on both fronts, Skarphedinsson did not appear particularly optimistic about a positive outcome. He noted that he and the Finance Minister continue to discuss the agreement with their counterparts in The Hague and London, keeping the Prime Minister informed. Commenting that he normally talks to the PM several times daily on this issue, he said that he and Sigurdardottir have a close relationship forged during their decade of working together. As a result he and his ministry play the dominant role in foreign relations, while she leads on domestic

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matters.

#### Defense Matters

16. (C) Skarphedinsson also spoke about defense issues including the closure of the Icelandic Defense Agency (IDA). Acknowledging the government's focus on Icesave, he nevertheless expressed optimism that a decision on IDA's future would come by year end. Some of the IDA's duties would likely transfer to the Coast Guard, which falls under the Ministry of Justice. He hoped, however, that most defense matters would remain with the MFA. He stressed that, no matter how the reorganization turns out, Iceland will continue to uphold its NATO obligations. When speaking of NATO commitments, the minister specifically stated that Iceland intends to take part in the Northern Viking exercise in 2010. (Comment. This information contradicts rumors we heard earlier that Iceland was considering postponing next year's Northern Viking exercise as a cost-saving measure. End comment.)

17. (C) The Minister said that Iceland also remains committed to the effort in Afghanistan. He said that, while he personally has concerns about the prospects for the war in Afghanistan, the Icelandic government understands its responsibility to contribute as a NATO member. Iceland has no intention, he said, of completely withdrawing its personnel from Afghanistan and has never even discussed it as an option.

18. (C) Noting the occasional activity of Russian planes in Iceland's air space, Skarphedinsson said he could not overstate the importance of the High North. The Russians, he claimed, have specifically stated that the High North is a top strategic priority. Skarphedinsson then, bluntly, used the High North discussion as an opportunity to chastise the U.S. for closing down the Keflavik Airbase in Iceland. The decision, he said, was "a bloody mistake." He noted that he understood the reasoning behind the decision and the need to reduce costs, but believes that the U.S. should have maintained some sort of presence in Iceland to protect its interests in the High North.

## EU Accession Process

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19. (C) Regarding Iceland's bid to join the EU, Skarphedinsson said that everything is progressing smoothly. Iceland should have answers for the EU accession questionnaire by the EU's November 16 deadline. Skarphedinsson believes that this deadline was intentionally set to ensure that Iceland's candidacy cannot be evaluated at December's European Council summit. Delaying consideration until spring would avoid the perception that Iceland's membership is fast-tracked at the expense of other candidates. The most likely scenario, he opined, is that Iceland's membership application would be discussed at the March summit of the European Council and that accession negotiations will begin soon afterwards.

WATSON